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SENSITIVE
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STATE FOR EEB/ESC, EUR/ERA, LA/EBA/BRIAN EVANS
TREASURY FOR GLOBAL AFFAIRS, TFFC, OFAC AND OSP
ICE FOR TF INVESTIGATIONS - JOINT VETTING UNIT/DAVID KANE

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SUBJECT: PART 1: U.S.-EU COUNTER-TERRORIST FINANCING WORKSHOP
(PRAGUE MAY 27-28): NON-PROFIT ORGANIZATIONS

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¶1. (SBU) SUMMARY. This is the first of two cables reporting on the U.S.-EU Terrorism Finance Workshop held in Prague on May 27-28. In response to U.S. diplomatic efforts, the Czech Presidency of the European Union (EU), in partnership with the upcoming Swedish Presidency, hosted the eighth in a series of expert-level U.S.-EU workshops on combating terrorism finance. About 120 participants from EU member states and institutions, the U.S., and the UN Monitoring Team attended the workshop, which focused on opportunities for U.S.-EU cooperation in three new areas: wire transfers, non-profit organizations and new payment methods. While recognizing differences between the U.S. and EU legal framework and practice, workshop participants focused on commonalities and agreed to prepare a common outreach paper to be approved by the U.S. and EU member states. The next workshop will take place under the Spanish EU Presidency during the first half of 2010. This cable reports on discussions relating to non-profits organizations (Part 2 (septel) addresses wire transfers, new payment methods and ideas for U.S. - EU future cooperation). The European Commission is exploring possible measures to decrease NPO vulnerability to terrorist financing abuse, and would welcome coordination with the USG on how to approach third states (e.g. Yemen and the Gulf countries). EU participants expressed interest and reservations about the U.S. Alternative Relief Mechanism pilot project in Gaza. Treasury also highlighted U.S. efforts against Hamas and Hezbollah, which continue to receive active support from the Islamic Republic of Iran. END SUMMARY.

¶I. Trends and Emerging Threats in Terrorist Financing

¶2. (SBU) Workshop participants recognized that while a single terrorist attack may be relatively inexpensive to carry out, terrorist groups have high operating costs relating to preparation and personnel development. The U.S. speakers identified couriers and hawalas, criminal and illicit activities, personal bank accounts, and charities and non-profit organizations (NPOs) as al Qaida and its affiliates' most common funding mechanisms. Terrorists often find ways to exploit new technology. U.S.

presenters expressed particular concern over e-payments/e-currency, online gaming and pornography sites, stored-value cards, and mobile payments.

II. Implementation of FATF SR VIII: Non-Profit Organizations

¶3. (SBU) For the first time in the workshops history, an entire session was devoted to implementation of FATF SR VIII for non-profit organizations. Recognizing that NPOs are particularly vulnerable to terrorist abuse through both diversion and exploitation of funds, SR VIII sets out an international standard for compliance. U.S. Treasury's DeAnna Fernandez and Katherine Leahy - both Policy Advisors at the U.S. Treasury's Office of Global Affairs/Office of Terrorist Financing and Financial Crimes, chaired this session and discussed the U.S. experience and efforts in implementing SR VIII. In particular, Katherine Leahy noted that in the U.S. Treasury's experience, exploitation is the more commonly observed practice of the two, aimed at radicalizing vulnerable populations through the provision of legitimate social services. Leahy underscored the importance of SR VIII not only in the U.S.-EU context, but also in a variety of regions including South Asia, which recently hosted its first regional conference on the subject through a USG initiative.

¶4. (SBU) Turning to the U.S. approach to SR VIII implementation, Leahy explained the American four-prong strategy: oversight, investigation, outreach and international cooperation. The U.S.-model relies on a combination of supervision at the federal, state, and local levels, as well as on self-regulation. Leahy noted that U.S. investigations require coordination among government agencies, as they are largely driven by intelligence. Investigations may feed into prosecutions for criminal acts, but

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also use other measures such as sanctioning through domestic designation.

¶5. (SBU) Leahy particularly highlighted the outreach component as vitally important in raising awareness of the threat, creating buy-in among the sector, and maintaining a dialogue aimed at minimizing these risks. She noted that while the bulk of funding comes from the U.S. and Europe, many other countries remain vulnerable to exploitation. Finally, she introduced the concept of "alternative relief mechanisms" (covered in more detail in Session III), which aim to provide a vehicle for donors to give more safely to vulnerable communities.

¶6. (SBU) Ben Evans of the Charity Commission for England and Wales presented one EU member state's approach to the regulation of the non-profit sector. Evans outlined the Commission's oversight duties with respect to approximately 200 registered charities, including: registration, monitoring, and investigating allegations of abuse. He stressed that the commission does not have authority to pursue criminal investigations and must depend on law enforcement agencies when criminal activity is suspected. In the UK example, the commission relies on the Terrorism Act of 2000, which outlawed raising, holding or using funds for terrorism.

¶7. (SBU) Evans agreed with Leahy that the charitable sector does not generally recognize the risks it faces, and emphasized the importance of public outreach. He stated that no domestic charities had been definitively implicated in attack planning, but that according to authorities, a "significant proportion" of CFT investigations involved charities. Recognizing the danger, the commission helps charities conduct effective due diligence and coordinate more effectively with law enforcement, as part of its CFT strategy "to identify, disrupt and prevent terrorist and other serious abuse of the charitable sector."

¶8. (SBU) In the discussion following the presentation, questions centered primarily on the intersection of charitable oversight and law enforcement. Participants sought clarification on whether investigations into charities have resulted in criminal prosecutions, the relationship between NPOs and national Financial Intelligence Units (FIUs), and, in the U.S. example, judicial

challenges to domestic designations of charities. In the course of discussion it became apparent that in the U.S., investigations into possible terrorist abuse of charities are largely driven by intelligence, whereas the UK relies primarily on tips from the public or NPO staff. Both the U.S. and the UK presenters noted the need for enhanced public outreach, and in particular the need to explain more clearly government actions taken in response to allegations of abuse or exploitation of NPOs.

III: Development of Alternative Relief Mechanisms for High Risk Regions (Private-Public Partnership)

¶9. (SBU) In certain regions, charitable works run a particularly high risk of inadvertent involvement with terrorists. The USG relies heavily on enforcement to protect the nonprofit sector from terrorist financing abuse, but USG designations inevitably shut down charities that were also providing legitimate services. To mitigate unintended consequences and meet urgent basic needs, the USG is developing ways to "backfill" the provision of services independent of terrorist-linked channels. U.S. Treasury's Leahy presented an overview of USAID's work to develop Alternative Relief Mechanisms in high-risk regions, noting that this is a work-in-progress and faces considerable challenges. Treasury issues guidance on oversight, enforcement, and best practices via its Web site and through targeted outreach conferences.

¶10. (SBU) In one pilot project that Leahy described, USAID has entered into an MOU with the American Charities for Palestine (ACP), an NGO looking to fund education services outside of Hamas channels. In that model, ACP raises money in the U.S., then works with USAID-vetted NGOs on the ground in the West Bank and Gaza. The goal

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is not to create a "white list" of government approved NGOs, which could introduce another set of potential hazards and possibly increase their risk of terrorist exploitation. Rather, the goal is to steer ACP to NGOs that have at least been cleared to work with USAID from a counter-terrorism angle, with the overall objective of promoting a neutral, de-politicized space for humanitarian aid. In another project, USAID and other U.S. agencies are working to map the providers of aid in Bangladesh. This project could reveal gaps in services, which could then be matched with known providers.

¶11. (SBU) Expressing interest in Treasury's overview of the USAID-ACP pilot project, EU participants:

-- commended the U.S. for recognizing the importance of humanitarian aid and the complications arising from certain terrorist designations;

-- requested more information about USAID and other U.S. agencies' criteria for choosing potential beneficiaries and the vetting process for both NGOs on the ground and U.S. donors;

-- cautioned that not all EU member states (EUMS) could legally "pre-approve" or guide certain charities due to their limited administrative authority;

-- wondered if NGOs faced political consequences when receiving U.S.-derived funding in lieu of Hamas; and

-- cautioned against "mission creep," worrying that the ACP-USAID model could undermine the diversity of NGOs if applied to areas beyond the unique context in Gaza.

¶12. (SBU) The participants agreed that the U.S. and EU should continue to explore ways to address the challenge of preventing terrorist abuse of charities, while ensuring that vulnerable populations obtain charitable relief if their local charity is designated and sanctioned for its alleged link

IV. Transparency and Accountability of NPOs

¶13. (SBU) Participants acknowledged that recent cases of NPOs' abuse by terrorist financiers highlighted the need for the sector's integrity, credibility, and awareness in protecting itself. In recognition that transparency and accountability of the non-profit sector are critical to preventing its misuse for terrorist financing and other financial crimes, Ingo Weustenfeld of the European Commission Counter-Terrorism Policy Office and Oldrich Krulik of the Czech Interior Ministry reported on their institutions' respective efforts to advance those goals such as commissioning studies, doing outreach and issuing guidelines for NPOs. According to Weustenfeld, who reported on the Commission's February 12, 2009 conference with leaders from the European Non-Profit Associations sector, no EUMS is fully compliant with FATF SR VIII despite the Commission's support for reaching such compliance.

¶14. (SBU) Though an important step forward, the studies conducted so far have not always demonstrated expected results. For example, following the December 2005 EU Council meeting that adopted five principles for NGOs conduct and their interactions with respective governments, the Commission initiated two studies of the sector to assess vulnerabilities and examine NPO exploitation for criminal purposes, including terrorist financing. The first study, already completed, fell short of providing comprehensive information or conclusive results. The second, to be published by summer 2009, attempts to map the 27 EUMS self- and government-regulatory frameworks for the NPO sector. Its preliminary findings call for information and best practices sharing, increasing guidance to NPOs and cooperation between stakeholders and NPOs.

¶15. (SBU) Many NPOs insist that a "one-size fits all" EU regulatory solution will not work, given the diversity of individual member state legal and regulatory systems affecting the sector. The

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Commission indicated that it will continue work on this area under the 5-year "Stockholm Program" on Justice, Freedom and Security, to be adopted by the Council under the Swedish Presidency. Drawing from U.S. practices, the FATF methodology, and EUMS experiences, the Commission is drafting guidelines for voluntary best practices by NPOs, and intends to continue the dialogue. EUMS will ultimately decide on the nature of actions to apply EU-wide, as the Commission does not have the authority to initiate binding legislation on the EU's charitable sector. (Note: Separately, EU Counterterrorism Coordinator Gilles de Kerchove asserted that he will push EUMS to be forward leaning on the Commission initiative.) Another Commission official, Michael Merker, EC Counter Terrorism Representative to the EUMS Civ/Mil Cell, Security Policy Unit, recommended that the U.S. and EU exchange expertise over efforts to engage third countries, e.g. Yemen and the GCC, in the effort to control terrorist financing.

¶16. (SBU) Workshop participants agreed that outreach to NPOs is key, but controversial. NPOs are often offended by the implication that they could be used for terrorist purposes. The Czech Interior Ministry noted, however, that after an initial negative reaction, some NPOs came forward with information that could prove useful to law enforcement and counter-terrorism officials. The Commission and the Czech Republic will continue to study how to reduce the opportunity for misuse of funds from the NPO sector.

¶V. Cases of Iran, Hezbollah, and Hamas Financing

¶17. (SBU) U.S. Treasury's Chip Poncy delivered an informal working lunch presentation on Hezbollah and Hamas financing. He explained USG views on these groups, the justifications for their U.S. designations, and our perception of the EU's position vis-à-vis Hezbollah and Hamas. While both the U.S. and the EU agree that the overwhelming percentage of funds raised by Hamas or Hezbollah are used to provide social services in areas where local governments fail to supply them, the U.S. views these activities as the means to gain support for terrorist activities among vulnerable populations by creating dependence upon their social services. However, these organizations social and terrorist activities cannot be divided into

distinct units. Thus, the U.S. approaches Hamas and Hezbollah as united entities and seeks to disrupt their global support networks through domestic designations (under E.O. 13224) and engagement with jurisdictions that actively support these organizations.

¶18. (SBU) Throughout the workshop, Poncy repeatedly underscored that any counter-terrorist financing efforts must be considered within the context of broader counter-terrorism efforts. When viewed through this lens, it becomes impossible to distinguish between the "legitimate" activities and terrorist actions of Hamas or Hezbollah, as they pursue a common purpose. The U.S. "organizational" approach to Hamas and Hezbollah contrasts with the EU approach, which generally requires demonstrating a direct link between financing and a terrorist act or activity. Poncy noted that when the EU designated Hamas as a terrorist organization, the U.S. interpreted this action as perhaps a sign the EU was coming closer to the U.S. "organizational" approach and was disappointed when it turned out not to be the case. The U.S. would like the EU to designate Hezbollah as a whole.

¶19. (SBU) Poncy flagged that Iran remains a state sponsor of terrorism that provides hundreds of millions of dollars a year to Hezbollah, increasingly supports Hamas, and fuels terrorist activity in Iraq. Iran's lack of any form of CFT controls led to its designation by FATF as country of concern. When combined with its ongoing weapons of mass destruction threat and financial obligations under various UNSCRs (e.g., targeted sanctions, activity-based financial prohibitions and vigilance against Iranian banks inside or outside the country), Iran presents unparalleled illicit financing risk to the international financial system. Consequently, Poncy urged the EU to take the strongest measures possible in implementing FATF's call for financial countermeasures against Iran, including obligations under UNSCRs 1737, 1747, and 1803. He noted that the

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international community has worked collaboratively to inform financial institutions of the serious risks of Iran's deficient AML/CFT regime as identified by FATF, and how best to make decisions based on FATF guidelines to protect financial systems.

Comment: Workshop Next Steps

¶20. (SBU) This practitioners workshop series, the only one of its kind in the U.S.-EU relationship, provides the main outlet for transatlantic experts to bilaterally explore challenges in addressing terrorist financing. Following agreement reached during a U.S.-EU meeting under the 2004 Dutch EU Presidency, the U.S. and EU have held eight practitioner workshops focused on countering terrorist financing from 2005-2009. Previous sessions focused on FATF SR III issues regarding TF sanctions and asset freezing. This workshop was the first to explore new territory, overcoming great EU reluctance in recent years to fulfill the commitment (see 2004 U.S.-EU Summit Declaration on Combating Terrorism) to discuss the challenge of terrorist misuse of the nonprofit sector. This topic will remain internally divisive to the EU in coming months as they debate any future EU regulatory approach. However, we have made progress in raising European awareness of the urgency of this issue and the fact that the U.S. does not primarily view the solution through a regulatory lens. The U.S. and EU should continue to look for ways to engage on this topic, although the traditional TF workshop participants lack expertise or authority for charities.

¶21. (SBU) EU institutional treaty and bureaucratic structures will continue to frustrate our best efforts to translate these expert discussions into operational or policy action. Yet, providing a private space for open, expert-level discussion of what is (or is not) working in this field is invaluable to laying the groundwork for long term adjustments to EU and national level decision-making and implementation. The USG should identify areas that could provide the best possible added value for this unique forum, as opposed to FATF (whose membership includes just half of the EU), the TF and terrorism U.S.-EU troikas, public conferences, or other possible venues. End Comment.

¶22. (U) Part 2 of this cable (septel) is being transmitted separately and reports on wire transfers, new payment methods and ideas for U.S.-EU future cooperation.

ThompsonJones